



# Causes of the Great Crash of 1929

What caused the Stock Market Crash of 1929, or “Black Tuesday” to have such an enormous impact on the American Economy?

# Over Speculation: Buying “On the Margin”, a 1920s Tradition on Wall St.

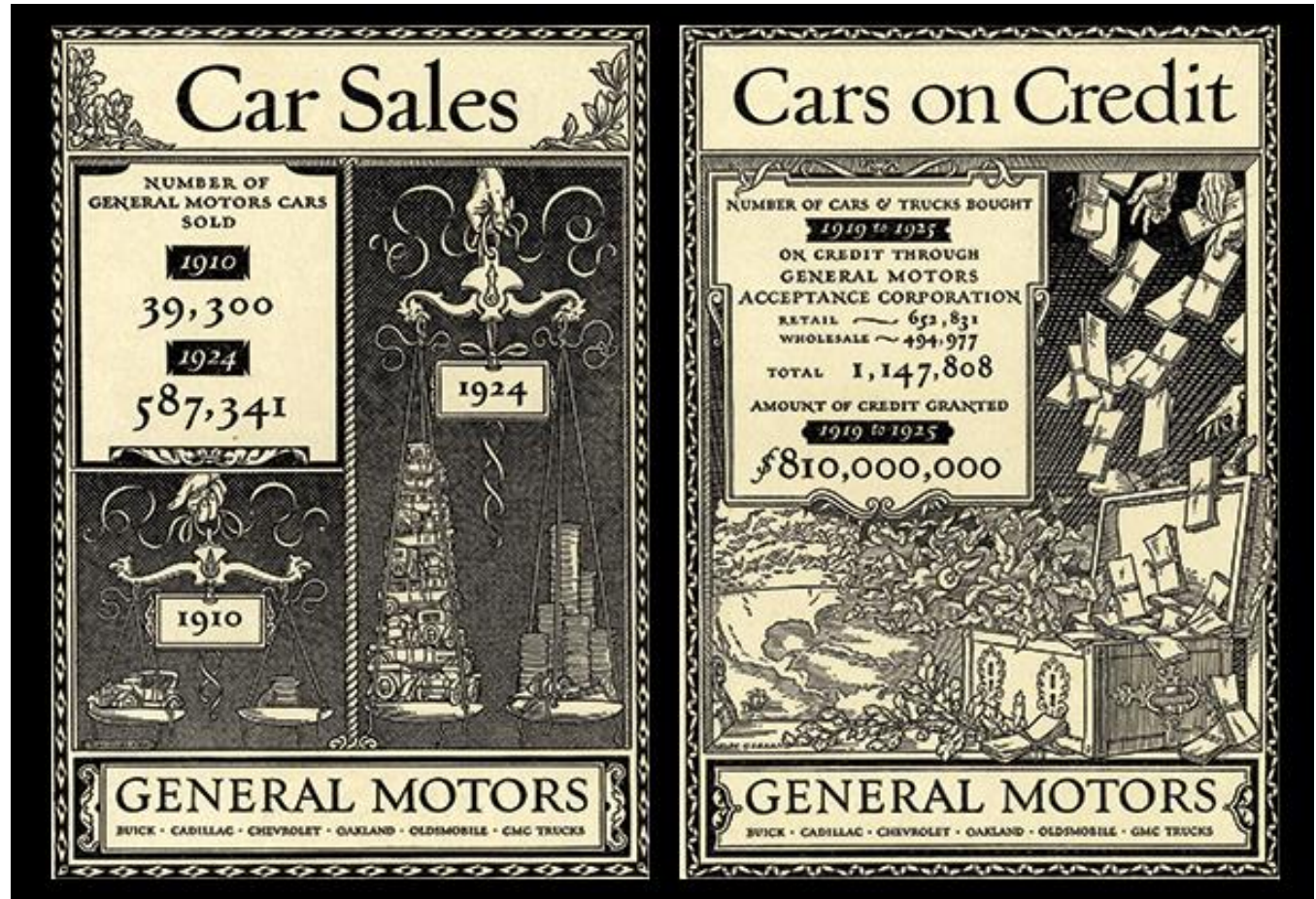
Buying on the margin allowed stockbrokers to use “other people’s money” to purchase stock. This practice allowed investors to make out like bandits during good times, earning up to ten times the profits they might have otherwise. But when the Stock Market bottomed out, innocent Americans lost out!





# The Over Extension of Credit

Expanding credit to consumers was a large part of the expansion of the economy during the 1920s, as well. However, granting credit is only a good plan when people can pay off their debts. After the Stock Market Crash, many Americans were unable to pay their creditors off, prolonging the pain of the Great Depression...



# The Stock Market Crash of 1929

The most important cause of the Great Depression is the Stock Market Crash of 1929. Not only was the Stock Market Crash an enormous loss for stockbrokers and a shock to business owners, it was also a crippling blow to banks and the holders of savings accounts. You didn't have to be a stock broker to lose your whole savings in the Stock Market Crash of 1929.



# Business Failures Lead to Bankruptcy.

The vicious cycle of business failure, bankruptcy, and unemployment described to the right was taking place all over America from 1929 until the Depression had set in at its worst.

Companies could not retain workers, and the economy went into the tank for years. This was capitalism at its worst – and people suffered accordingly.

- ❑ Overproduction left many companies with more products than they could sell.
- ❑ Companies were forced to lay off or fire workers.
- ❑ Fired workers don't make money... they're unemployed.
- ❑ The Unemployed don't have any purchasing power.
- ❑ Sales for other companies drop.
- ❑ More companies lay off or fire workers.



# The Federal Reserve Failed to Act.

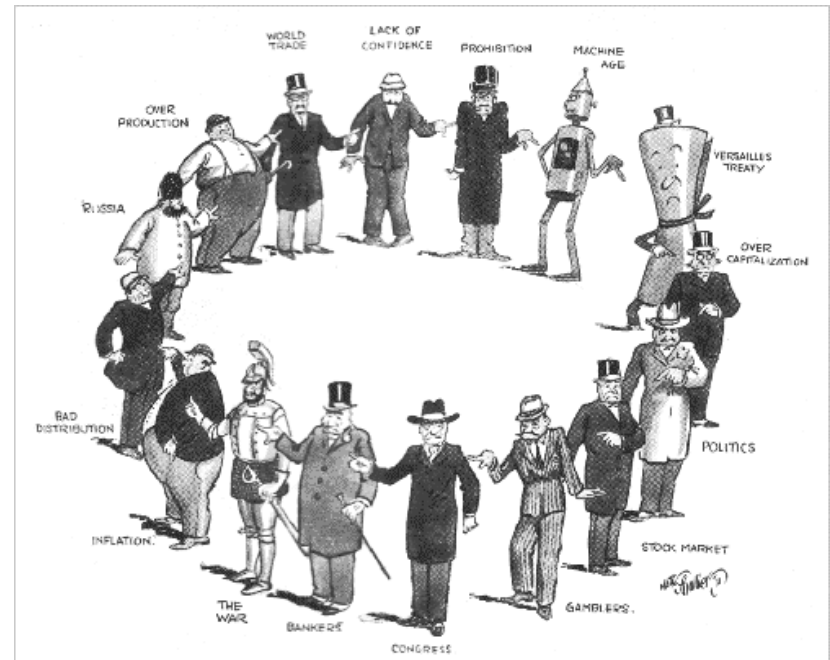
- The Federal Reserve had been created by Woodrow Wilson's administration, and its purpose was to act as a regulating central bank for the United States. By setting interest rates and placing controls on currency, it could regulate the money supply and lending rates and help to manage the nation's economy.



The Federal Reserve failed to prevent the onset of the Great Depression. It did not regulate banks adequately, allowing them to make reckless and uninsured loans to stockbrokers which ruined the economy.

# Buying on the Margin?

Stockbrokers who bought “on the margin” were essentially borrowing money from the bank – from your savings account – in order to invest larger amounts into certain stocks. If they made money, it was easy enough to pay off these short term loans with the profits. When the Stock Market Crash occurred, however, they owed ten times what they had... and stockbrokers couldn't pay back their debts.



Many people were blamed for starting the Great Depression. But savings account holders could justifiably blame stockbrokers – and reckless bankers – for squandering their hard earned money.



# Bank Failures in the 1920s

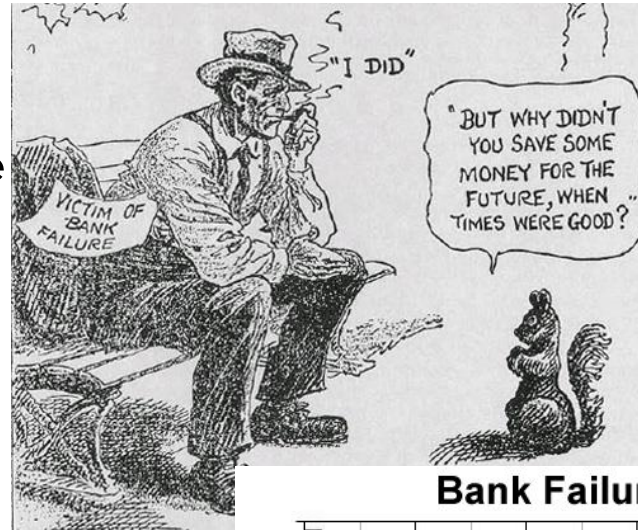
- As word got out that savings accounts were not secure, and that banks were in jeopardy of closing, a run on the banks took place.
- Account holders withdrew all of their savings, first come, first serve.



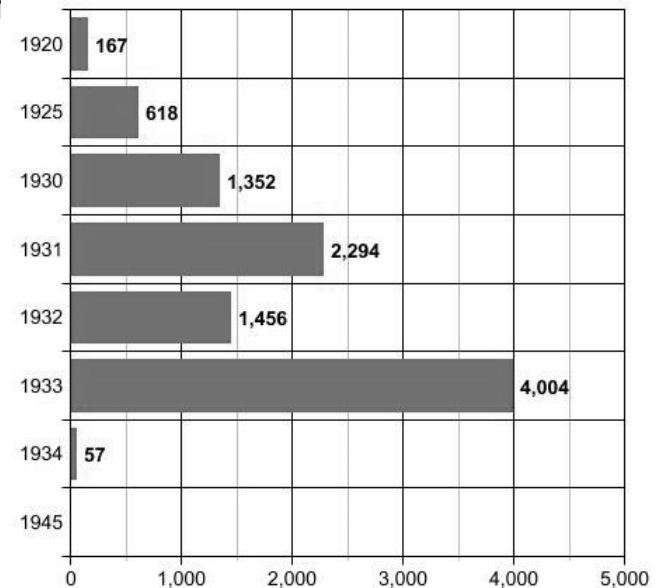
Banks gave out money to account holders for as long as they could; however, the amount of money held in reserve was a small percentage of investments. When the money ran out, many savings account holders were left empty-handed.

# Over 9,000 Banks Failed by 1933.

- Over 9,000 banks failed during the Hoover years. When Franklin Roosevelt came into office in 1933, his first move was to declare a “Bank Holiday” and create new rules for banking in the United States – guaranteeing the deposits of savings account holders on the credit of the federal government.
- Nevertheless, with so many banks closed, there was no money being invested in the economy – and little hope for a recovery...

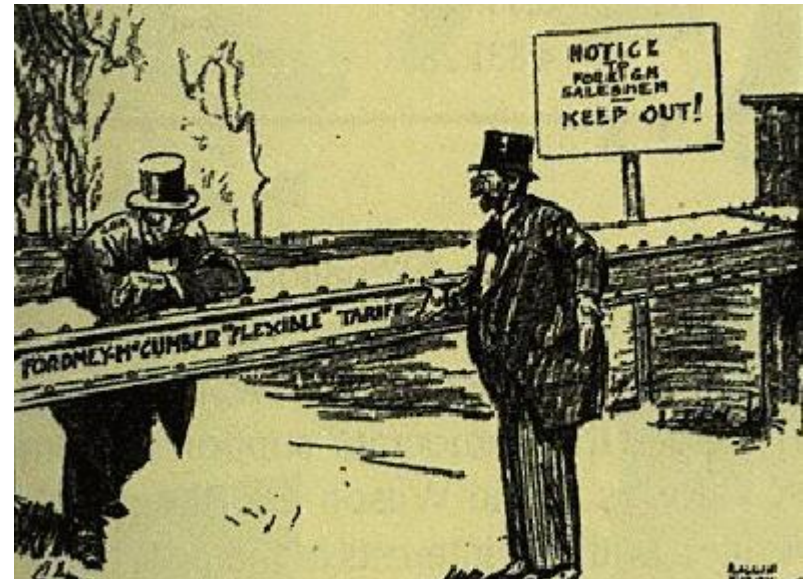


**Bank Failures**



# High Tariffs Strangled World Trade

- High tariffs were traditionally put in place to protect American made goods – and make them sell better. By placing a tax on European made automobiles, for example, American made cars would cost less and sell better. But when other countries retaliated with high tariffs of their own, Americans lost markets in Europe.



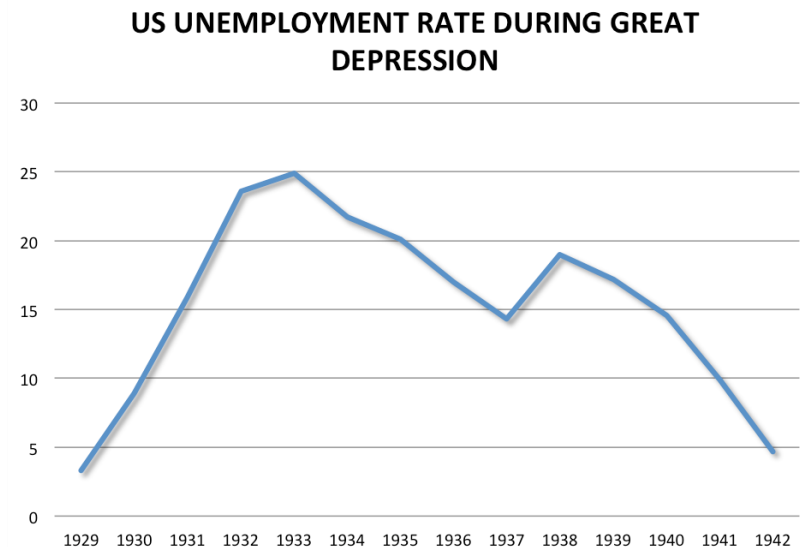
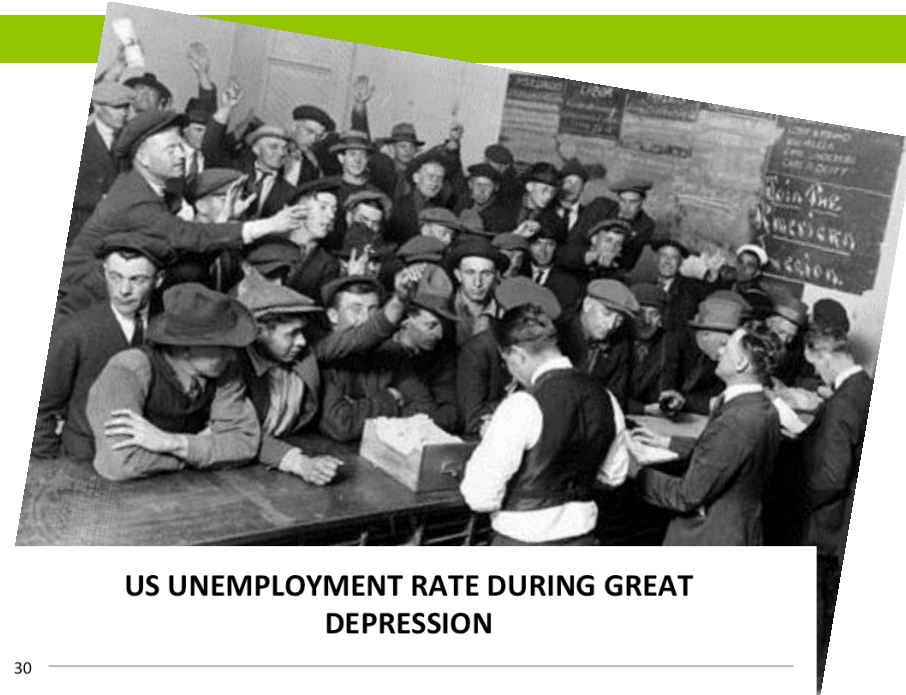
The Tariff was as high as 40% on imported goods during the 1920s, making it practically impossible for foreign goods to sell competitively in American markets. Europeans countered with tariffs of their own, and the economy was hurt overall.

# Impacts of the Great Depression

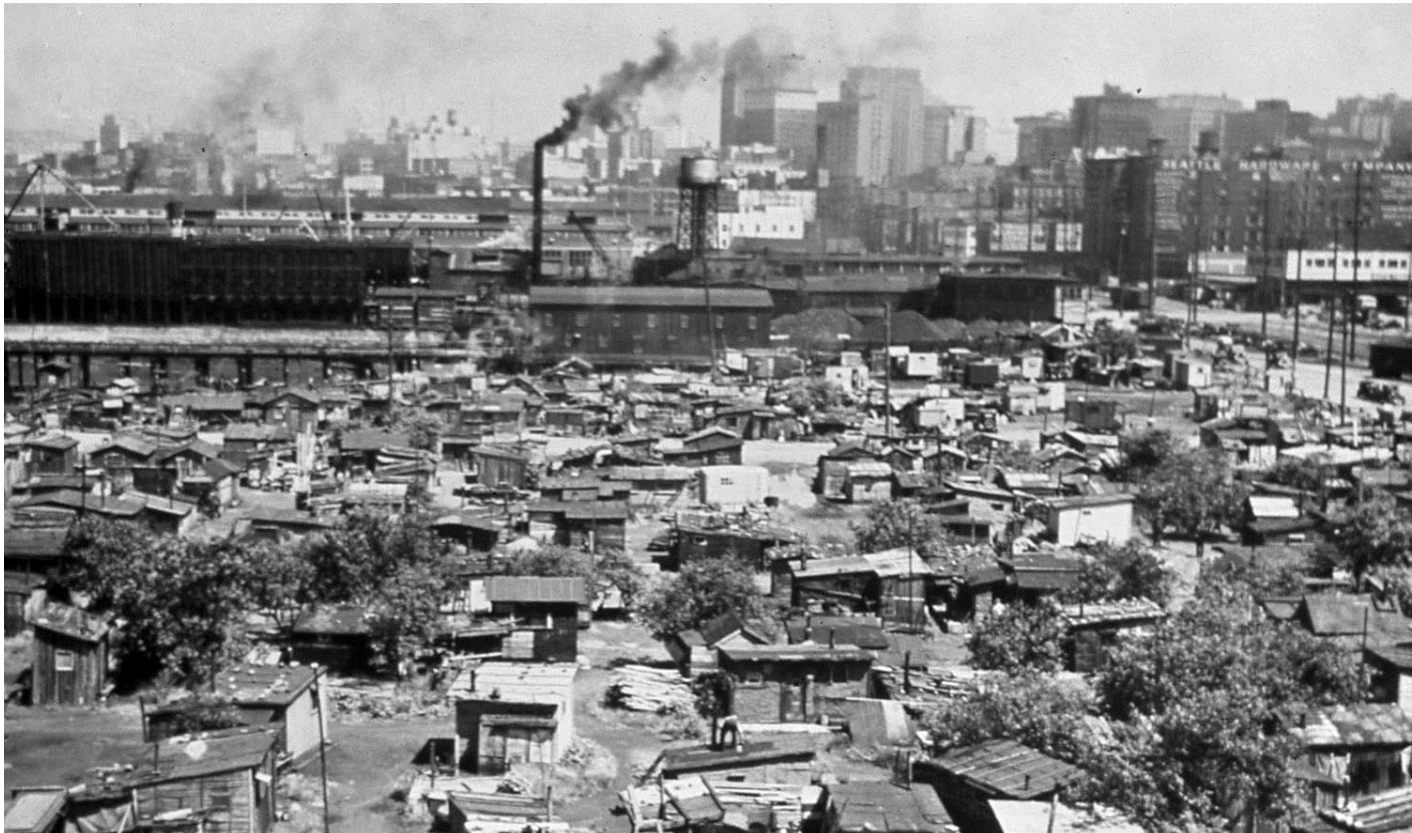


# Unemployment and Homelessness

The rates of unemployment in the United States were staggering throughout the Great Depression. By 1932, the worst year of the Great Depression, the United States had an unemployment rate close to 25 percent. When jobs became available, enormous lines were created by men anxious to do anything for compensation. Many men left their families in order to become transient workers, going from town to town – hobo style – looking for work. They sent home what they earned. Most of the time, however, these men had a hard time. They were chased out of towns when work was scarce, and harassed by the police.



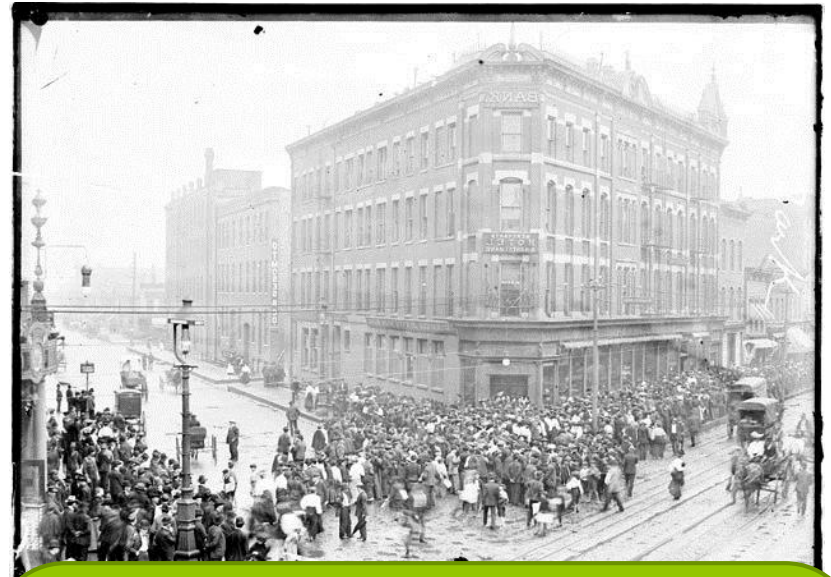
# Hoovervilles



Poverty, disease, and foul smells permeated the environment in Hoovervilles – so named in order to disparage the President. Hoovervilles were generally on the edge of towns – shanties without heat, plumbing or basic sanitation.

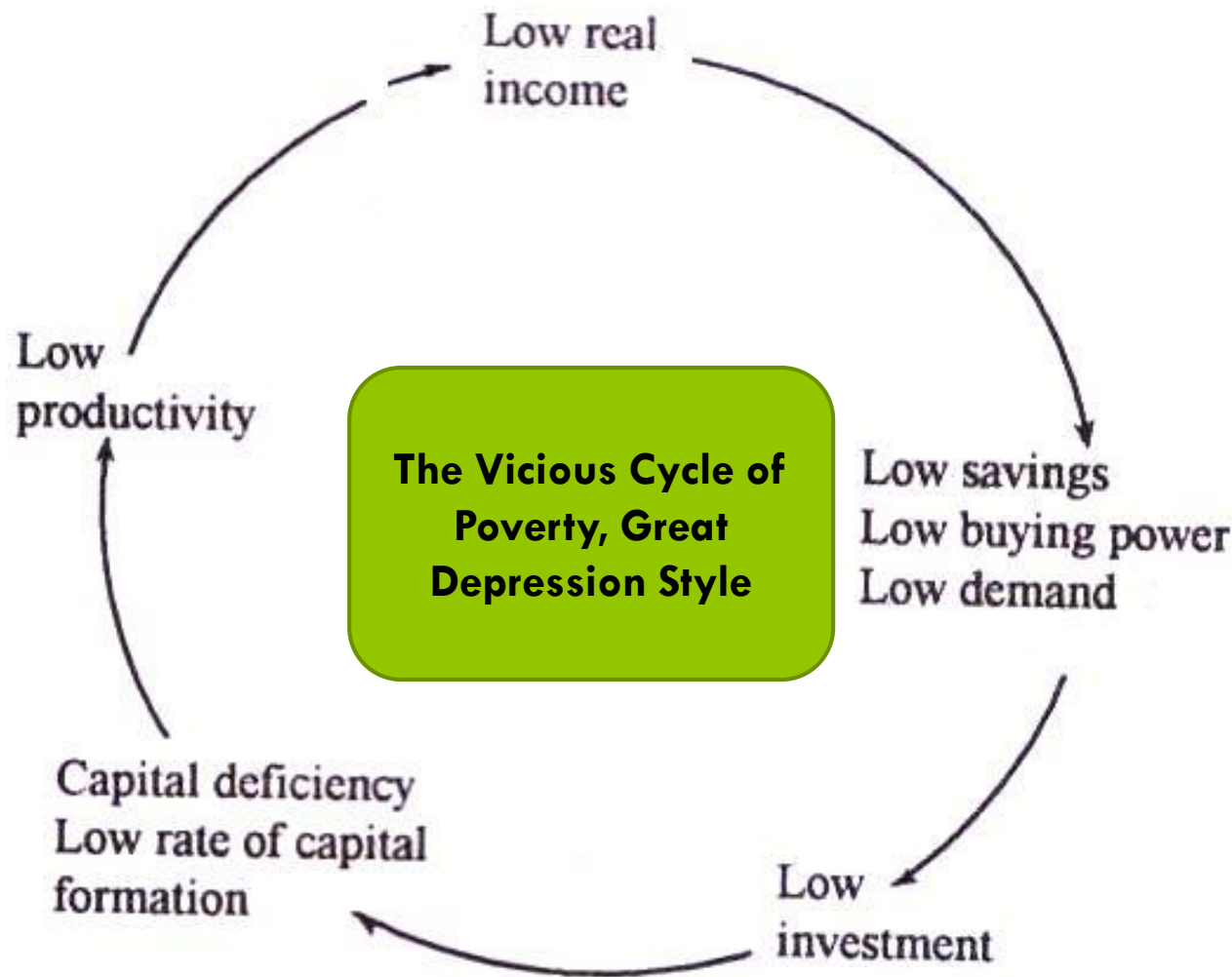
# Collapse of Banking and Finance

- Once the bank runs began in the autumn of 1929, a vicious cycle soon emerged. As depositors took everything they could out of the banks, the entire financial system of the United States was crippled. No one had money – and no one was able to lend money. The lack of investment prevented any recovery.



With no money in the banks, reviving the economy became exceedingly difficult. There was no way for banks to promote business because they had no money to lend, and no business venture was a sure thing during the 1930s.

# Decline in Demand for Goods



Behold! The vicious cycle of poverty. When people lose their jobs, they can't buy things. When people can't buy things, businesses fire employees. It can keep up for a long, long, time, and when it does, recessions and depressions occur and persist.



# Farming Failures and Migration

During the 1930s, an ecological disaster hit the Great Plains which was every bit as catastrophic to the environment as the Depression had been to the economy. The Dust Bowl, which turned fertile farmland to bedrock in just a few years, forced many families to migrate West, or starve. Parts of Kansas, Oklahoma, Texas, New Mexico, and Colorado were left vacant as Americans moved West to escape certain death.



# The Dust Bowl – American Migrants



# FDR and The New Deal

Roosevelt's New Deal Changes the Role of  
Government in the United States

# The New Deal Changes the Role of Government in the United States.

- Franklin Roosevelt had three major goals with the New Deal programs he enacted.
- First, to provide relief to the poor and unemployed.
- Secondly, to provide jobs and stimulate the economy.
- Finally, to prevent future economic collapses by regulating banks and the stock market exchange.

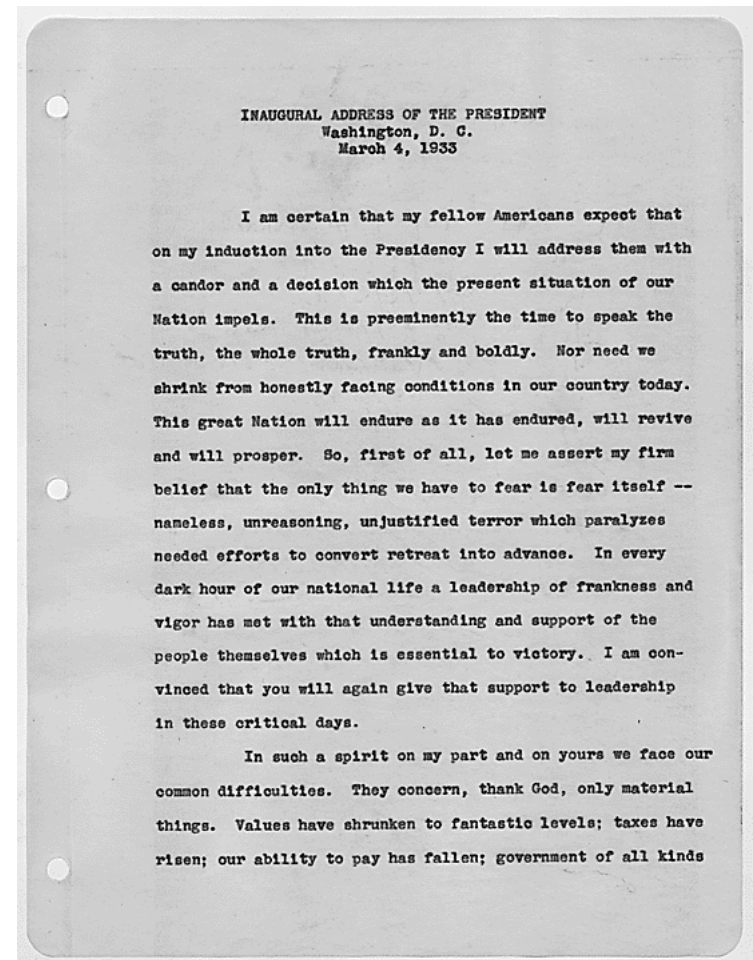
*"Looks as If the New Leadership Was Really Going to Lead."*





# FDR Rallied a Fearful Nation, 1933

- March 4, 1933, FDR addressed the nation during his first inaugural. “So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself – nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert *retreat* into advance.”



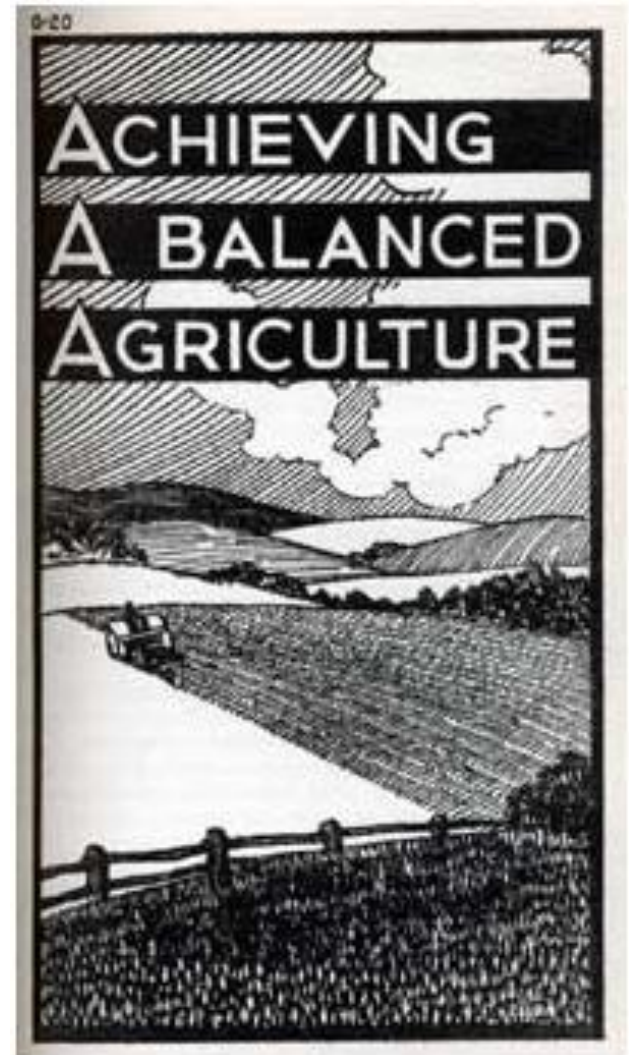
# Direct Relief and Employment

- **Works Progress Administration** (WPA) – The WPA put thousands of Americans to work on large scale programs like dams, airports, municipal buildings, roads, and bridges.
- **Federal Emergency Relief Administration** (FERA) – This organization, which has evolved into FEMA (Federal Emergency Management Administration), gave federal money to the states. The states were able to spend money as they saw fit – to provide aid to those in need.



# Recovery Programs to Bring the Nation Out of Economic Depression

- ❑ Agricultural Adjustment Act (AAA) – This New Deal Program actually paid farmers NOT TO grow crops. This artificially inflated the price of crops. While this may seem backwards at first, remember this: most Americans were farmers in the 1930s.
- ❑ National Recovery Administration (NRA)- This organization required businesses to keep on as many workers as possible, and to pay them as much as was reasonable. The program was later ruled unconstitutional.



# Reforms to the Banking Industry

- The Federal Deposit Insurance Corporation (FDIC) – This program guarantees the bank deposits of investors up to a certain amount. Meaning that if the bank should lose your money, the federal government guarantees that you will be reimbursed! It still exists today.
- Securities and Exchange Commission (SEC) – This government agency supervised transactions on stock market exchanges, in hopes of preventing the sort of speculation and reckless trading which made the Stock Market collapse October 29, 1929. It still exists today.





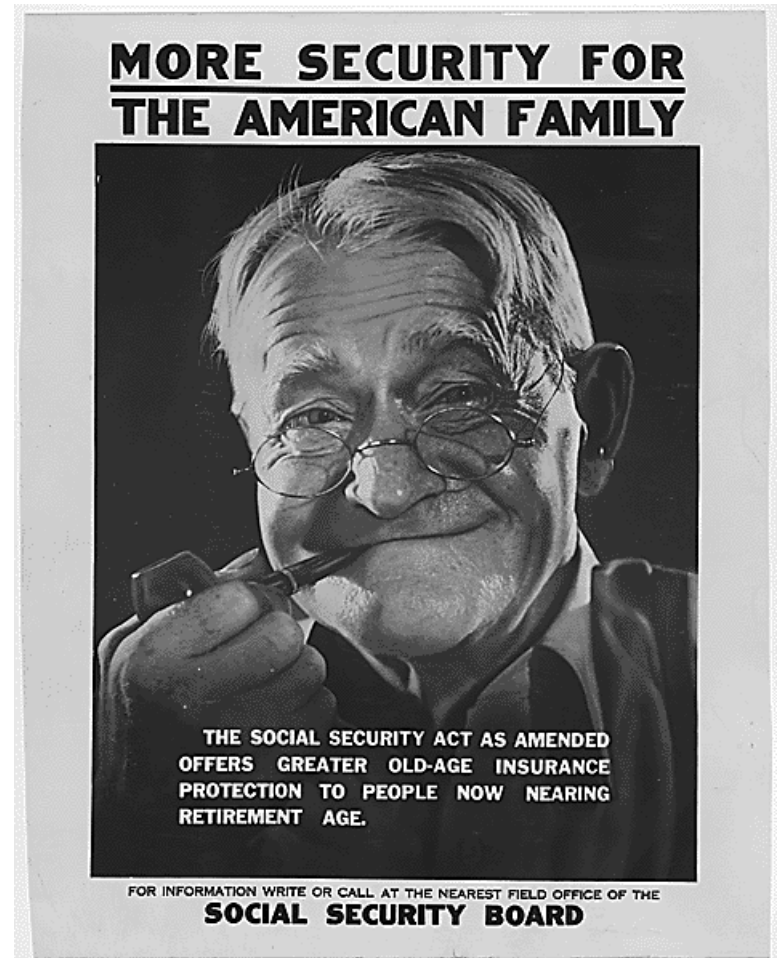
# Labor Unions Gain Strength

Labor Unions gained strength during the Great Depression Era. President Franklin Roosevelt was a strong supporter of unions. The fact that so many people were so poor meant that wages dropped considerably, and FDR – along with most labor unions – believed that a minimum wage must be established. Groups like the Congress of Industrial Organization organized effective strikes and the United Auto Workers carried out the first ever Sit-In Strike, in Flint, Michigan.



# The Social Security Administration

- The Social Security Act (SSA) is one of the New Deal programs which is still with us today. The program sends out government payments – taken out of worker's paychecks. The money distributed provides safeguards for unemployed workers, the elderly, the disabled, and dependent children of the poor.



# The New Deal's Legacy

- The government has a responsibility to provide public services.
- The government has a role to play intervening in the economy (no laissez-faire)
- The government must promote the general welfare.

*“When land failed, our ancestors moved on to better land. It was always possible to push back the frontier, but the frontier has now disappeared. Our task involves the making of a better living out of the lands that we have. So, also, security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it.”*

*- Franklin Delano Roosevelt*

# Textbook Answers on the New Deal

Vocabulary and Points of Emphasis on the SOL



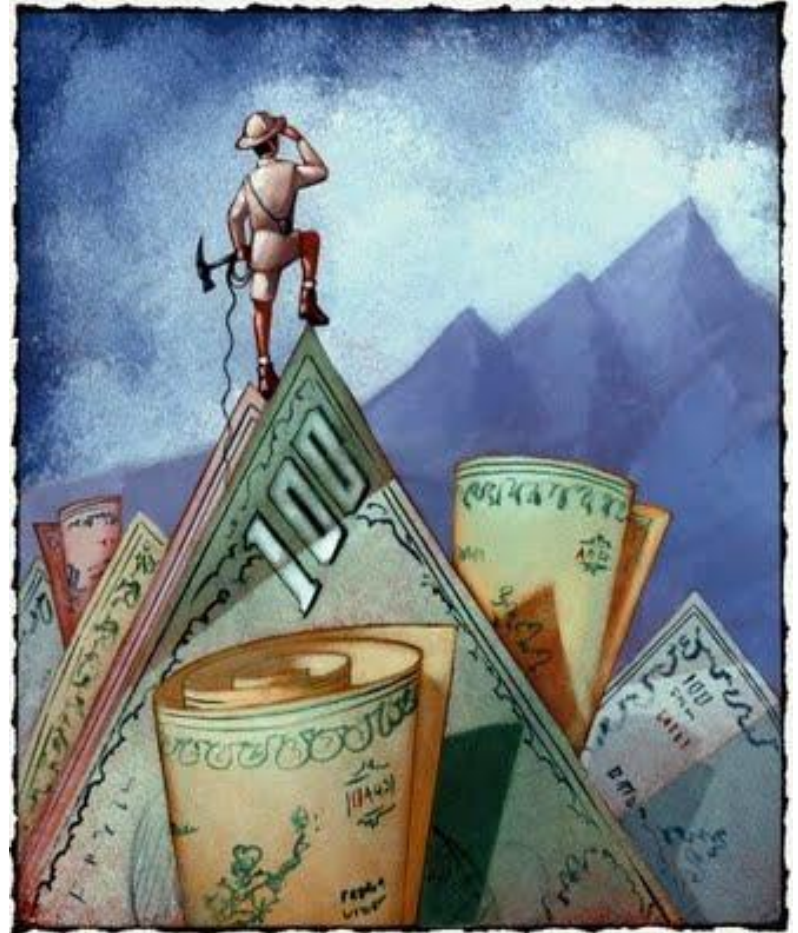
# “Buying on the Margin”

Borrowing money from a bank in order to invest in the Stock Exchange is referred to as buying “on the margin.” In other words, the margin of gain. The hope was to significantly increase the stockbroker’s profits on a wise purchase. However, when stocks decreased in value, it left the stockbroker on the hook for the full amount of his loan. In 1929, stockbrokers had no ability to repay all that they had borrowed.



# Speculation

Speculation is simply the reckless purchasing of stock in companies in order to pursue profits. Without inspecting the health of a company, investors might buy shares in a company which had been making money recently. If they sold the stock quickly after purchasing it for a quick gain, they made money. When the stock slipped in value, though, they were simply out of luck!



# October 29<sup>th</sup>, 1929: “Black Tuesday”

“Black Tuesday” was the day the Stock Market crashed in New York City. The value of companies was reduced to virtually nothing in many cases. Stockbrokers sold their shares of companies to anyone who would buy – for less and less money as the day dragged on. Nothing could slow the downward spiral.



# Bank Runs and 9,000 Failed Banks

When the holders of savings accounts in banks across the United States began to realize their own savings accounts may be in jeopardy, they immediately headed to the bank to withdraw their savings. Only a precious few were able to get to the bank before funds ran out. The banks failed, and savings were never refunded.





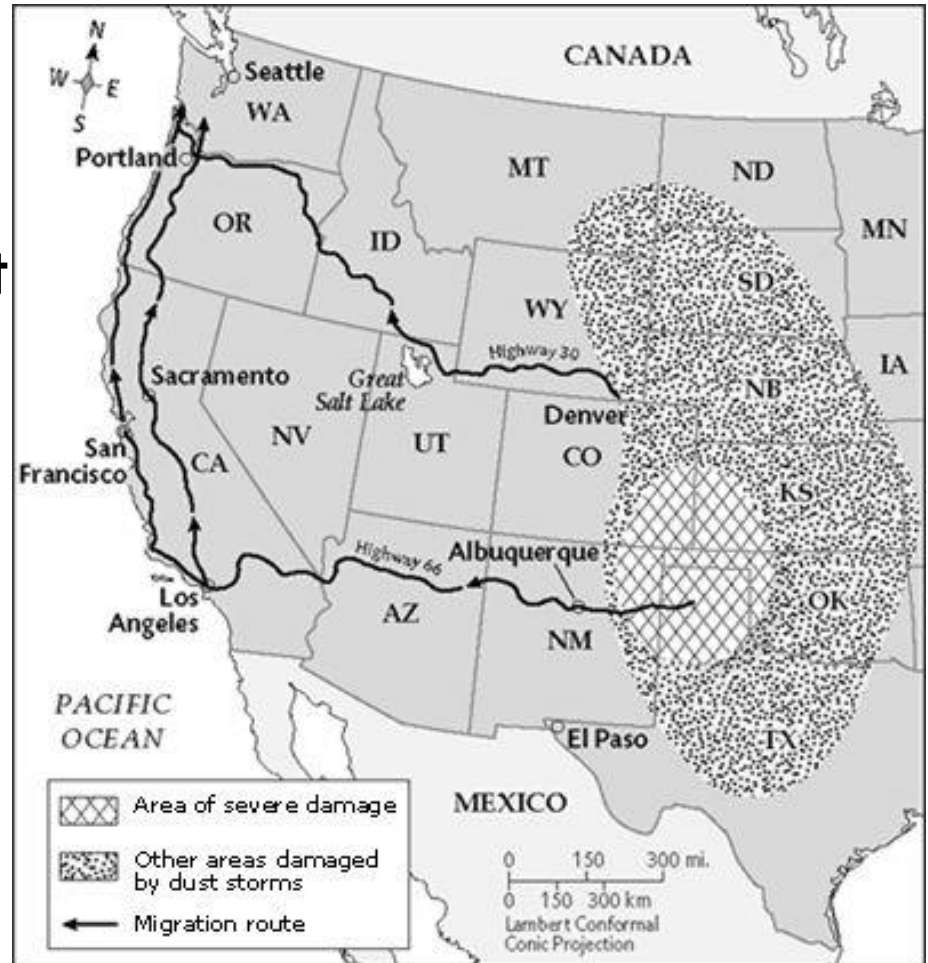
# The Hawley-Smoot Tariff Law

Passed in the year 1930, the Hawley-Smoot Tariff was a “protective” tariff which set the excise tax on imported goods at one of the highest levels ever. This was intended to protect American businesses. Unfortunately, when many European nations and important trade partners across the globe retaliated by raising their own tariffs, it shut many American companies out of foreign markets. Overall, this hurt the economy.



# The Dust Bowl

During the 1930s, an environmental disaster destroyed good farmland in the Midwest. On the south plains, years of drought and poor soil conservation methods resulted in the land literally lifting off and blowing away in enormous dust storms.



# The Dust Bowl - Images



# The Dust Bowl - Images





# The Dust Bowl - Images



# The Dust Bowl – Images

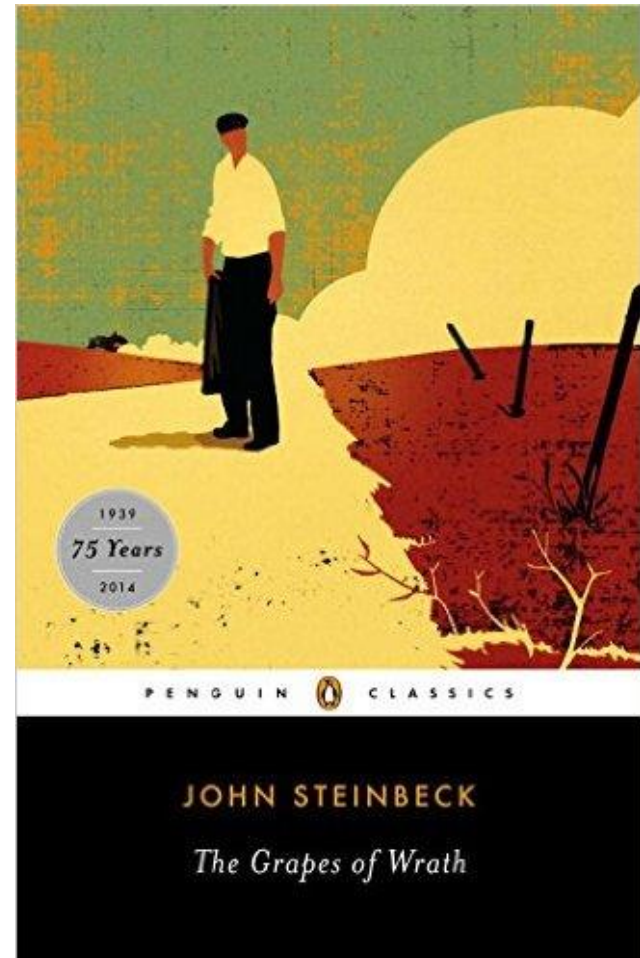


# The Dust Bowl – Images



# John Steinbeck's *The Grapes of Wrath*

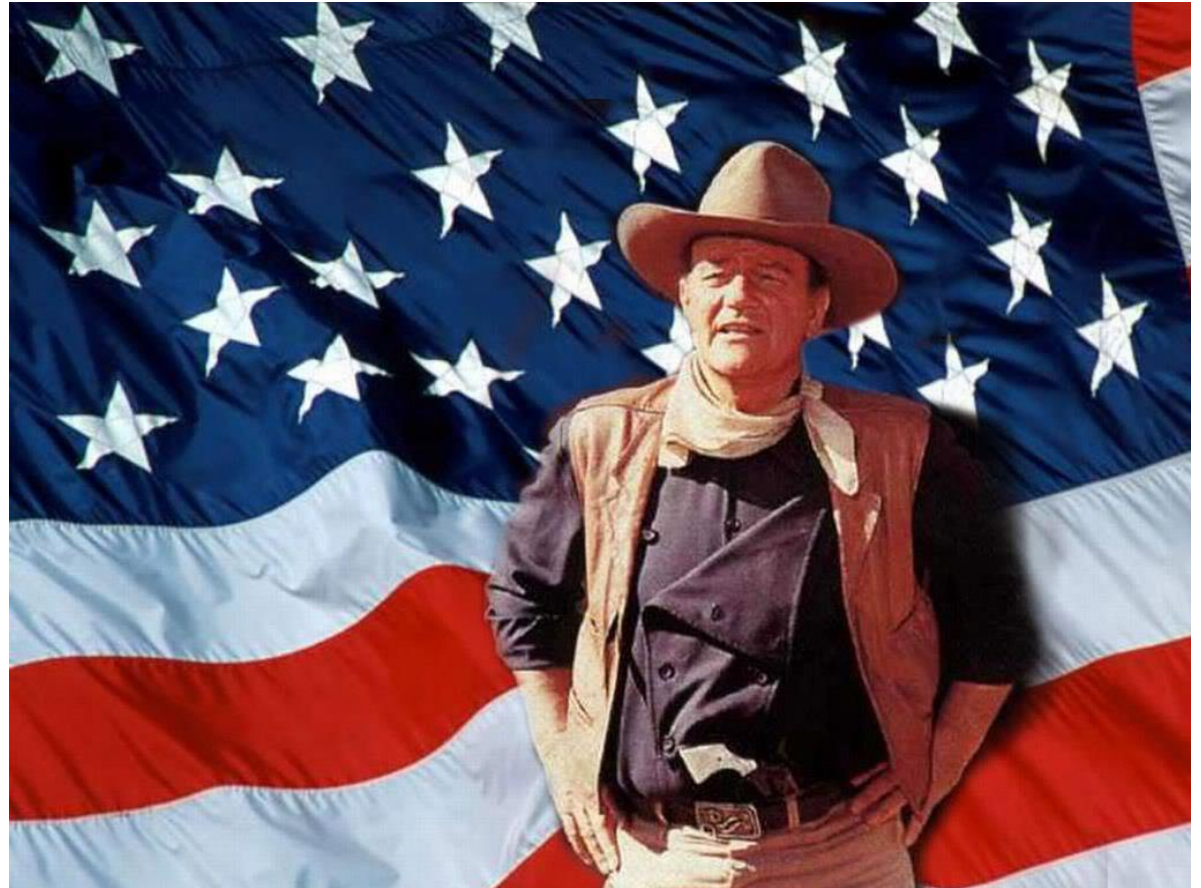
- *The Grapes of Wrath* is John Steinbeck's classic novel about the Joad family – dispossessed of their land in Oklahoma, and force to emigrate West – along Route-66 to California.





# “Rugged Individualism”

Republican presidents like Warren G. Harding, Calvin Coolidge, and Herbert Hoover all favored laissez-faire economic policies, and were therefore not prone to offer assistance to people who were in economic need. The idea of self-reliance has always been popular; however, at the start of the Great Depression, the old ways of doing things were soon abandoned.



# Hoover's Reconstruction Finance Corporation, Too Little, Too Late...

- Herbert Hoover realized the error of his ways a little too late. By 1932, he was convinced that laissez-faire policies were not helping the American people.
- The RFC, however, did not offer aid to the ordinary American directly. It gave money to big businesses, and hoped that “trickle down” supply side economics would work!



# The Bonus Army: Hoover, Why?

Close to 20,000 veterans of World War I marched to Washington, D.C. in 1932 to demand a \$1000 bonus – about 13 years early.





# FDR's Plan: The New Deal

- ❑ The first goal of the New Deal was to provide aide to the homeless and unemployed.
- ❑ The second goal was to create jobs programs.
- ❑ The third goal was to prevent future financial collapses.





# “Fireside Chats” – FDR on the Radio

Franklin Roosevelt was an extraordinary communicator. Staying on the cutting edge of technology, he used the radio to persuade Americans to support his policies. His charm and confidence came through the radio, and Americans supported his New Deal ideas, and his leadership during World War II.



# Security and Exchange Commission (SEC)

This New Deal Program was introduced in order to insure fair play on the Stock Exchange. Today, they prevent insider trading and make rules regarding the pace of trading, mergers between companies, and other factors which influence trades on the NYSE and other markets.



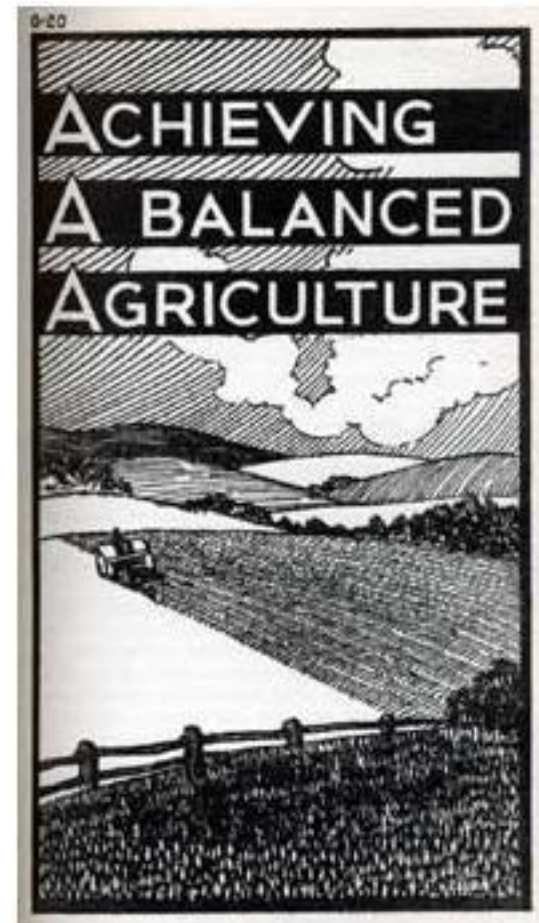
# Federal Deposit Insurance Corporation (FDIC)

The FDIC guarantees deposits in savings accounts. When the Great Depression began, it was limited to \$2,500 per person. Today, the FDIC guarantees all deposits up to \$250,000. FDR supported this program to encourage Americans to begin putting their money in the banks again. This expanded the money supply and allowed banks to begin making loans again.



# Agricultural Adjustment Administration (AAA)

- Shockingly, the Agricultural Adjustment Administration actually paid farmers not to grow food!
- In order to manipulate the price of food – and to increase it, in most cases – they asked farmers to pour milk down the drain, set fire to crops, and slaughter livestock.
- In 1935, this program was ruled unconstitutional.





# The Tennessee Valley Authority



The Tennessee Valley Authority dammed up the Tennessee River and began producing electricity to wire up the Southern portion of Appalachia. Not only did the program employ people, it also improved the quality of life in the area significantly. The TVA is still around today!

# National Recovery Administration

Franklin Delano Roosevelt's most prized program was the NRA. This program put pressure on businesses to keep employees on, to pay fair wages, and sometimes, to accept lower profits as a result. The President encouraged Americans to support businesses which pledged to support NRA methods.



# Civilian Conservation Corps (CCC)



- ❑ EMPLOYED MILLIONS OF YOUNG MEN IMPROVING THE NATIONAL PARKS SYSTEM AND THE INFRASTRUCTURE OF THE UNITED STATES.
- ❑ USUALLY HIRED 18 – 25 YEAR OLDS FOR TWO YEARS OF SERVICE.
- ❑ MONEY PAID TO THESE INDIVIDUALS WAS INTENDED TO IMPROVE BUYING POWER OF CONSUMERS.
- ❑ MANY OF THESE MEN MIGHT HAVE BEEN DRAWN TO PETTY CRIMES UNDER DIFFERENT CIRCUMSTANCES.

# Federal Emergency Relief Administration (FERA)

- GOVERNMENT PROGRAMS WHICH SIMPLY GAVE MONEY TO THE STATES FOR PUBLIC DISTRIBUTION AS THE STATES SAW FIT.
- GENERALLY, THE ASSISTANCE WAS PROVIDED BY THE STATES IN THE FORM OF FOOD AND SUPPLIES FOR THE NEEDIEST COMMUNITIES IN THE STATES.





# PWA: Public Works Administration

THE PUBLIC WORKS ADMINISTRATION HIRED MILLIONS OF MEN AND WOMEN TO WORK ON OR SUPERVISE CONSTRUCTION PROJECTS ALL ACROSS AMERICA — FROM THE HOOVER DAM TO AIRPORTS, TO PUBLIC BUILDINGS.



# CWA: Civil Works Administration

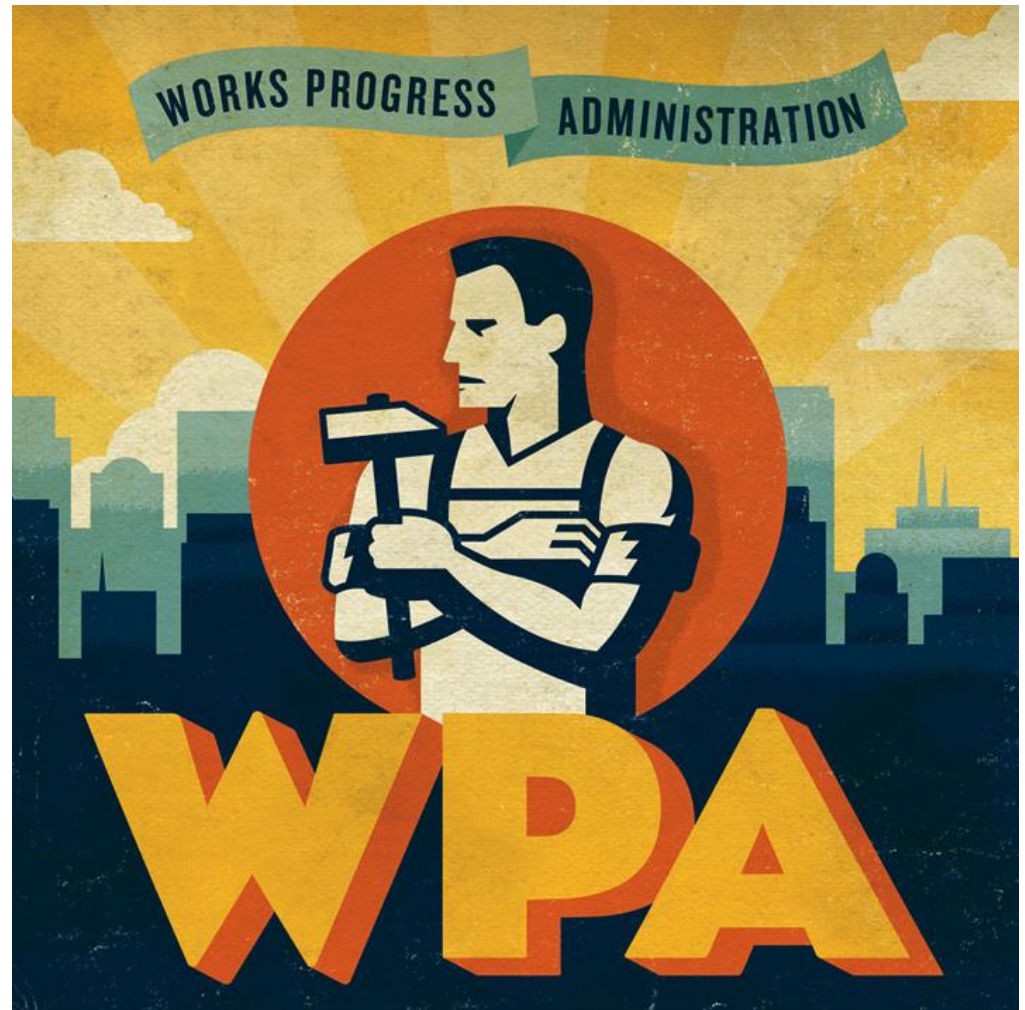


The winter of 1933 – 1934 was one of the most difficult on record in the United States. The Civil Works Administration was a government program to hire common day laborers during this difficult period – just to make ends meet during these hard times.



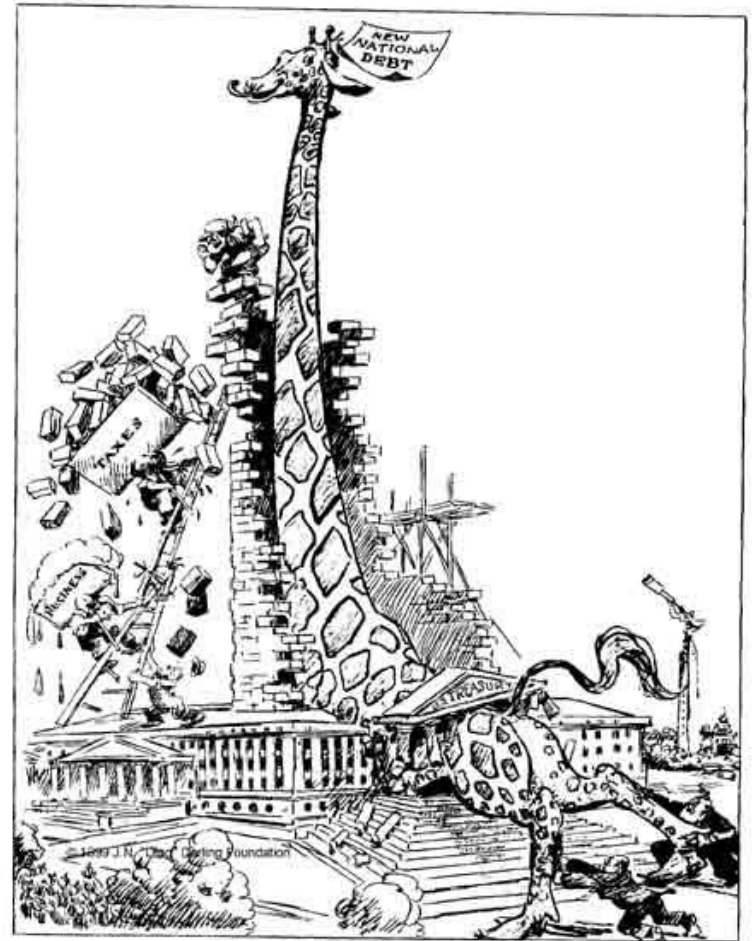
# Works Progress Administration (WPA)

- Hired common laborers, teachers, artists, writers, actors, musicians, and various other skilled laborers to do worthwhile government studies – some cultural, some anthropological, and some demographic.
- Photographer Dorothea Lange and authors like Zora Neale Hurston were also hired by the project.



# “Deficit Spending” to End the Depression?

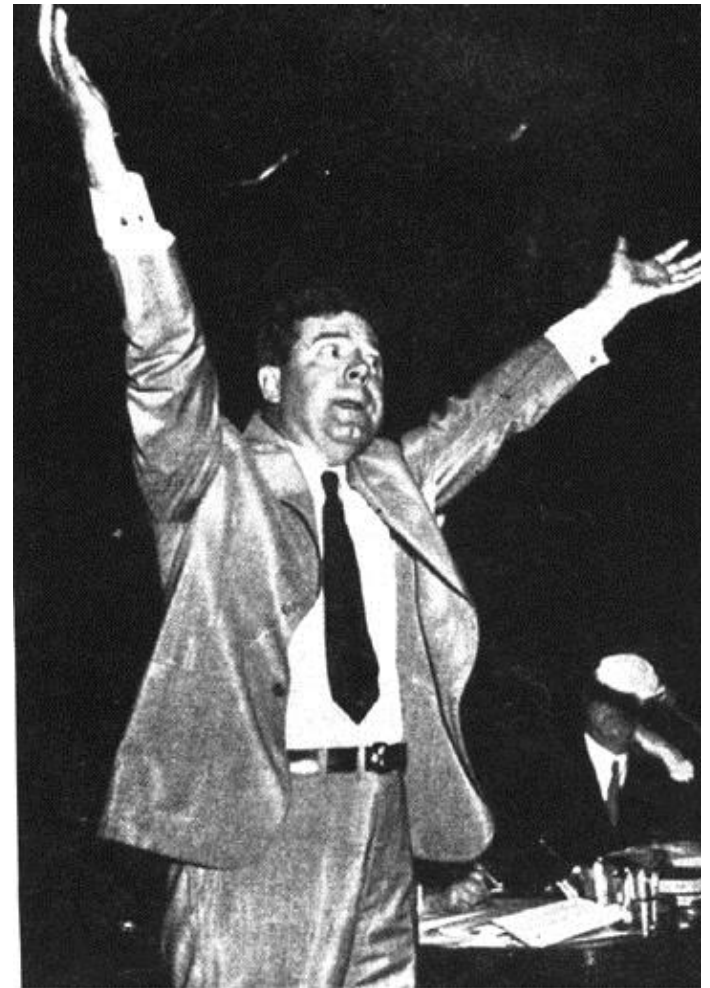
John Maynard Keynes was the economist who originally suggested that spending more money than what you have is sometime necessary to get the economy going again. Keynes was famous for stating, “In the long run, we’re all dead.” So, we must at times take action in the short term to ameliorate the economic situation.





# Huey Long: The Kingfisher

- Senator Huey Long (D-Louisiana), known as “The Kingfisher,” was a vocal critic of the President, and feared by many as a rival and would be dictator. His “Share Our Wealth” plan was popular with some – it proposed a huge tax on millionaires and promised everyone a house, a car, and a radio. Long was murdered in Louisiana by a raging medical doctor who feared Long would become an “evil tyrant.”

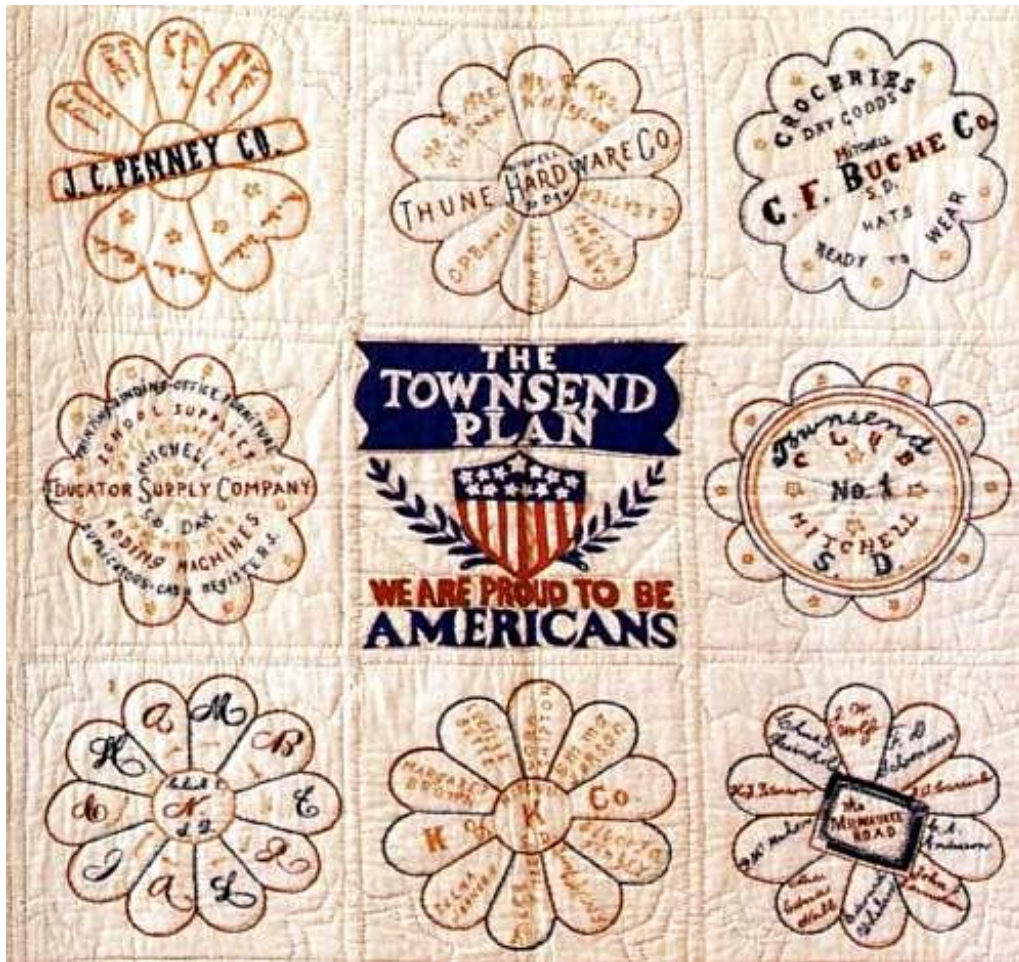


# Father Charles Coughlin

A former supporter of Roosevelt's, Father Charles Coughlin was known as the "radio priest" for his weekly sermons from his parish in Detroit, Michigan. Coughlin was deeply mistrustful of Roosevelt's banking and money policies. Coughlin was also a well known Anti-Semite and bigot who professed to support both Mussolini and Hitler in the years leading up to World War II.



# Dr. Frances Townsend

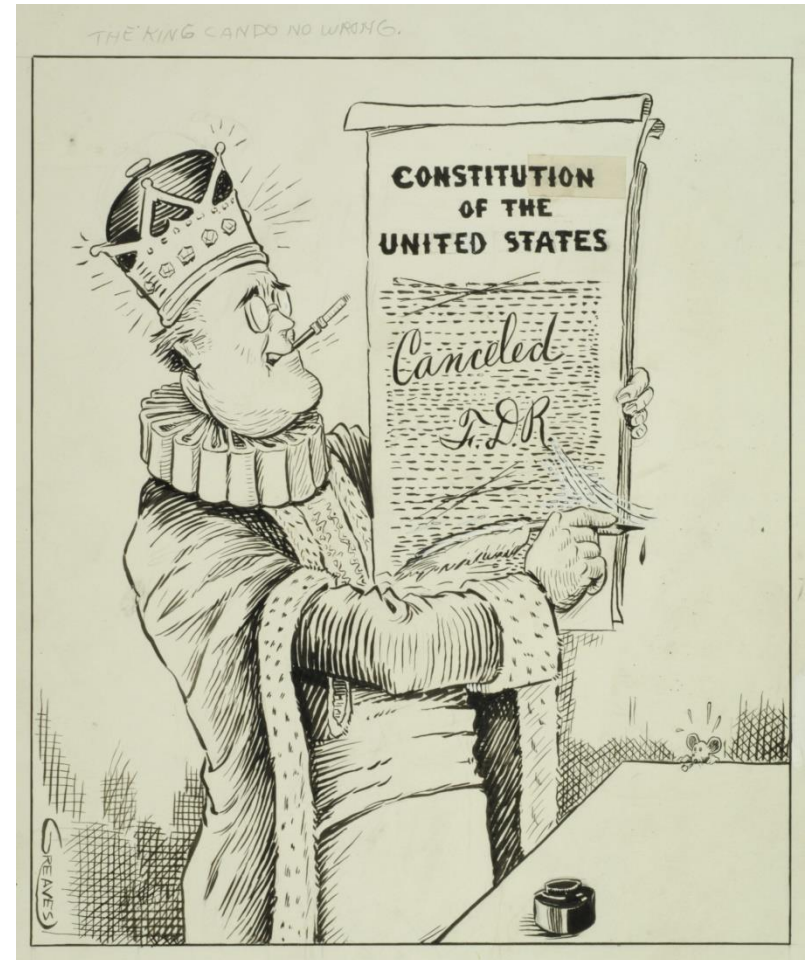


Dr. Francis Townsend believed that every elderly person in America should receive a pension of \$200 each month – and condemned the President for failing to look after men and women who were old and retired. Many of Townsend's ideas were incorporated into the Social Security Act of 1935 – a major component of the so called “Second New Deal.”



# Enter the Supreme Court...

- Starting in 1935, the Supreme Court made a series of rulings against several of FDR's key programs, ruling them unconstitutional. The National Recovery Administration and the Agricultural Adjustment Act, for example, were both voided out by the Supreme Court.





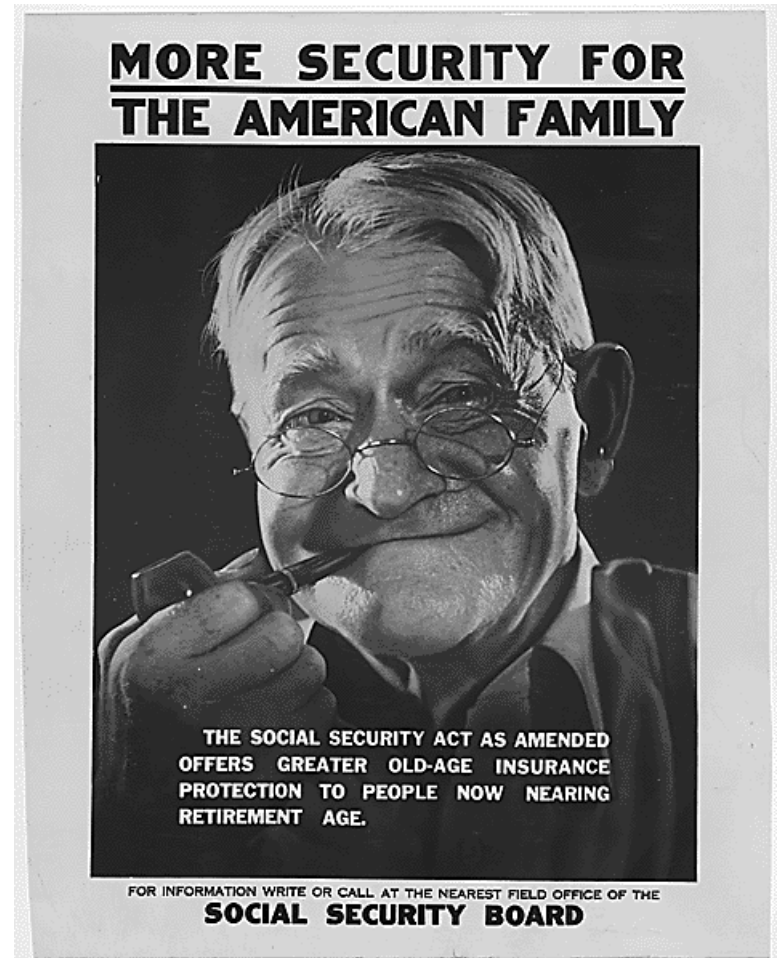
# The Wagner Act - NLRB

- President Franklin Delano Roosevelt was a strong supporter of unions, and with the Wagner Act, he insured that a federal minimum wage would be established for the first time and guaranteeing the right to collective bargaining for unions.



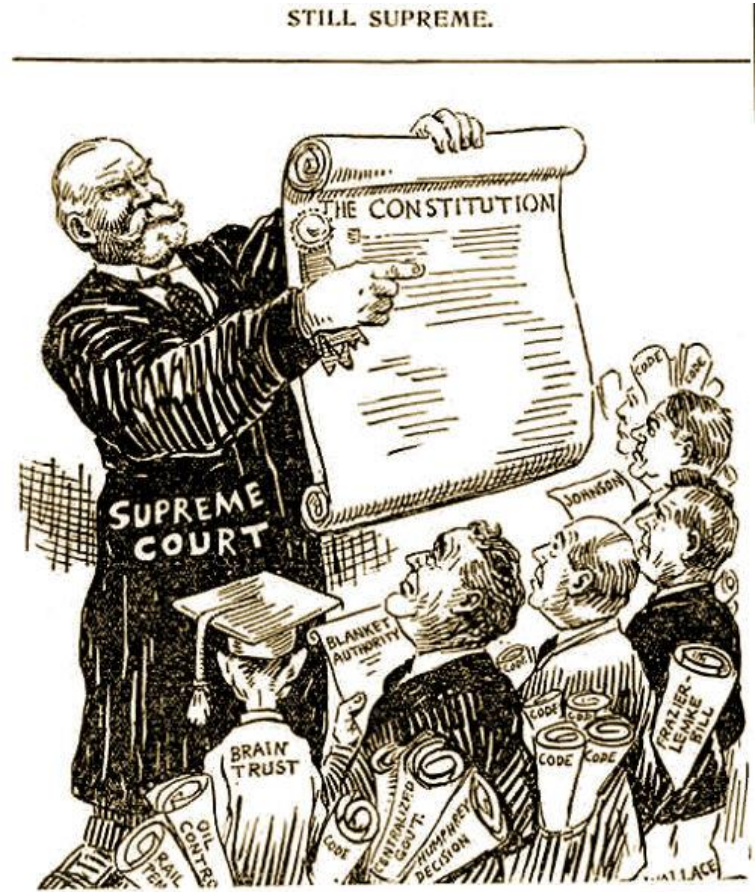
# The Social Security Administration

Social Security was established in order to take care of some of society's most needy members: the elderly, the blind, the disabled, and children who were underprivileged. Pensions were distributed to all of these people, with the expectation that they would spend their monthly payments and stimulate the economy.



# FDR's Supreme Court Packing Plan

When the Supreme Court several New Deal programs – including the Agricultural Adjustment Administration and the National Recovery Administration – as unconstitutional, Roosevelt was aghast. He decided to try to get around the Supreme Court – and the checks and balances which define our government under the Constitution – by proposing a law to the Congress. Roosevelt argued that he should be allowed to appoint six new Supreme Court justices, changing the size of the Supreme Court to fifteen (15) members. He claimed he was worried that the workload of the Justices was becoming too difficult. But Congress saw right through his plan, knowing that the real reasons he sought to add justices to the Supreme Court was to get more favorable ruling about his New Deal Programs. He, after all, got to appoint the new justices! The public and the two other branches of government were outraged, and the plan was quickly scrapped.





# The Political Cartoon

This political cartoon shows President Franklin Delano Roosevelt angrily denouncing the Chief Justice over decisions which had ruled his programs unconstitutional. When Roosevelt attempted to change the nature of the Supreme Court with his court packing plan, however, he ended up with the same result baseball players have when they argue balls and strikes with the ump: he lost!





# The Legacy of FDR's New Deal – Accomplishments of the Policies:

1. The New Deal employed millions of formerly jobless people.
2. The New Deal ended the nation's banking crisis and established new rules for banking which improved financial security in the nation.
3. Reformed the Stock Market by establishing the Security and Exchange Commission.
4. Established new standards for workers and guaranteed laborers the right to negotiate through collective bargaining with their employers.
5. Rebuilt or established the infrastructure of the United States of America.
6. Restored confidence and faith in the federal government of the United States of America.

# Criticisms of the New Deal

- The New Deal gives too much power to the Federal Government, which taxes Americans in order to fund programs like Social Security, the TVA, and the FDIC.
- Federal deficits and deficit spending policies. Many Americans criticized FDR's policy of spending more money than the United States paid in taxes – with the hope that future gains would balance the budget.
- The New Deal did not end the Great Depression. Productivity as a result of World War II ended the economy. Interestingly, the manufacturing jobs and heavy industrial production spurred by the war was funded entirely by.....the United States Government, which purchased all the weapons and supplies being manufactured.